

# COST ESTIMATES EXPLAINED

## Does the University pay too much for Building work?

In the Buildings and Estates Department we are professionally qualified engineers, project managers, surveyors and facilities managers. We are chartered, certified and experienced in our industry. We are proud of the built environment that we create, maintain, and operate, in the knowledge that this assists the University to deliver the best teaching and world-class research.

Sometimes the cost of the building work can be a surprise, particular if your only previous experience was dealing with a builder in your own home. We often hear a minority of colleagues responding, *"I could get this work done cheaper using a contractor I know. They are good; they have done work on my house"*. Through this note, we hope to explain why the cost estimates or budget costs we prepare provide value for money. We will also explain why estimates can differ from the final cost.

1. The University is a place of work and must comply with a wide range of legislation and codes of practice, which do not apply to individuals in their private homes. This includes the health, safety and welfare of all those effected by work, including students, visitors and the general public.
2. All contractors carrying out work on campus must satisfy with minimum health and safety requirements, prior to been identified as an Approved Service Provider. All contractor employee's must complete a campus specific induction, prior to commencing work on camus.
3. The University must ensure its contractors adhere to procurement, financial and sustainability regulations.
4. Compliance comes at a cost. Activities and people unfamiliar with the University require management and supervision to ensure everyone goes home safely. After agriculture, the construction industry is the most dangerous work sector in the Ireland. In 2015, there were 12 fatal injuries and 603 notifiable accidents in the construction industry.
5. Construction work is a complex list of activities that must be completed in a defined order, this requires lots of planning and consent. These activities are a costly part of any programme and contractors must have resources to manage, supervise, plan and deliver them.
6. The University is proud to have a number of high-spec, state-of-the-art facilities including research microscopes, low vibration labs, microbiological labs and much more. As well as increasing the complexity of the infrastructure, these facilities can place limitations on working arrangements. For example, working outside of normal hours, restricted access and quiet working can all effect the final costs.
7. The University environment places constraints on our professional teams and contractors alike, for example:
  - a. Requiring disruptive works to be undertaken during the holidays creates demands on contractors who may respond by charging a premium.
  - b. Programming works around key events, such as open days, exams, graduations etc.
8. The University spend hundreds of thousands every year procuring construction work. A key part of the construction procurement strategy requires the appropriate allocation of risk between the various parties. The insurance or protection from risk carries a cost like any insurance premium. For construction work, the University requires contractors

and consultants to have public and employer's liability insurance. They must also have professional indemnity insurance to cover compensation claims from poor advice or design.

9. Government procurement procedures are complex and place a heavy resource burden on the Buildings and Estates Department, our Procurement colleagues and also the Service Providers who are bidding for works. We constantly review the supply chain and work hard to ensure a balance of high quality and affordable suppliers have prequalified to be part of the University framework. It is in the interest of the University that contractors are commercially successful, so overheads and profits of contractors are a reasonable cost for them to charge.
10. The Buildings and Estates Department is part of the University; we strive to deliver value for money and to provide welcoming, supportive facilities for teaching, research and residences.
11. University departments will not normally pay professional services fees for minor repair or maintenance works. Works defined as alterations, improvements or large capital investments will include specialist professional fee costs and are also subject to VAT.

### **Why has the final cost of the work exceeded the original Quotation?**

1. The Quotation is always produced in good faith as an approximation, based on the information available at the time of production. They are not intended to be an exact, 'cost of every nail' figure.
2. Estimates are often based on the cost of recent similar projects around the University. Given the size, scale and complexity of the estate, this can introduce variation to the estimate. The surveyor will be prudent and allow for variations through the use of provisional sums (an allowance to cover cost elements that are yet to be defined).
3. The construction industry recognises that the number one cause of discrepancies between cost estimates and final cost is the ambiguity of the client brief. A clear client brief, including confirmation of the available budget, will allow the Buildings and Estates Department to produce more accurate quotation.
4. 'Scope creep' is a significant factor in final costs exceeding early cost estimates; what starts as a simple request can quickly grow, thereby requiring the designers, engineers, planners and a team of professional consultants, all who must be paid for their services.
5. Post contract variations have a disproportionate impact on final outturn costs. Imagine the costs involved in changing the colour of your car after you've bought it. As well as design variations having a cost impact, so will changes to the contractor's logistics. We have to pay suppliers during the contract, even if we have asked them to stop working because of an unexpected disruption.
6. We recognise that not all the information is available at the time of enquiry and that surprises do happen. It is for this reason that we utilise provisional sums and appropriate contingencies, and why we will challenge and resist the temptation to exclude these to make a quotation seemingly affordable.
7. The University works hard to control construction costs and yet quotations may appear high to colleagues. Quotations may exceed departmental budgets/grants. Sometimes expectations of what is achievable within budget do not match the market conditions of the commercial construction industry.
8. External factors such as the new construction projects around Limerick can divert much of the resources and equipment, otherwise available, and can play a significant factor when contractors are pricing work.

9. The time taken between a quotation being prepared, and the budget becoming available can be many months. Construction industry inflation far exceeds general retail inflation, at the time of writing the Society of Chartered Surveyors of Ireland are forecasting an annual 7% increase in tender prices. This is why quotations are usually only valid for 90 days.
10. Construction workers are in line for a pay rise in excess of 5% over the next two years, with some separate wage increase agreements in place for specific tradespersons. These pay increases will be factored in as part of the estimate quotation. Again, this is why quotations are usually valid for a period of 90 days.

For further information please contact the Buildings and Estates office:

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